

**Peggy Adams Animal Rescue League
of the Palm Beaches, Inc.**

Financial Statements

December 31, 2018

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Independent Auditors' Report

To the Board of Directors
Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
West Palm Beach, Florida

We have audited the accompanying financial statements of Peggy Adams Animal Rescue League of the Palm Beaches, Inc. (the "Organization"), which comprise the statement of financial position at December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization at December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Wagtail Capital LLP

Boca Raton, Florida
June 11, 2019

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Financial Position
December 31, 2018

ASSETS

Cash and cash equivalents	\$	3,779,745
Restricted cash and cash equivalents		5,970,672
Accounts receivable, net		33,441
Pledges receivable		7,249,827
Grant receivable		100,000
Inventory		96,216
Prepaid expenses		117,846
Mortgage receivable		119,356
Endowment receivable		3,743,880
Bequest and remainder trust receivables		43,229,466
Investments		24,264,750
Property and equipment, net		<u>13,863,630</u>
Total assets	\$	<u>102,568,829</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$	501,214
Accrued expenses		<u>240,100</u>
Total liabilities		<u>741,314</u>
Net assets:		
Without donor restrictions		41,294,089
With donor restrictions		<u>60,533,426</u>
Total net assets		<u>101,827,515</u>
Total liabilities and net assets	\$	<u>102,568,829</u>

See accompanying notes to financial statements.

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Activities
For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions and gifts	\$ 2,584,029	\$ 13,289,734	\$ 15,873,763
Special events, net	792,908	-	792,908
Mail appeal, net	116,712	-	116,712
Boutique, net	28,167	-	28,167
Program income:			
Sheltering and adoption	788,739	-	788,739
Clinic	1,402,074	-	1,402,074
Investment income	672,558	-	672,558
Assets released from restrictions	3,006,614	(3,006,614)	-
Total revenues and other support	<u>9,391,801</u>	<u>10,283,120</u>	<u>19,674,921</u>
Expenses:			
Program services:			
Sheltering and adoption	5,908,920	-	5,908,920
Clinic	2,847,593	-	2,847,593
	<u>8,756,513</u>	<u>-</u>	<u>8,756,513</u>
Support services:			
Fundraising and development	657,179	-	657,179
General and administrative	600,484	-	600,484
	<u>1,257,663</u>	<u>-</u>	<u>1,257,663</u>
Total expenses	<u>10,014,176</u>	<u>-</u>	<u>10,014,176</u>
Change in net assets before other income (expense)	<u>(622,375)</u>	<u>10,283,120</u>	<u>9,660,745</u>
Other income (expense):			
Other income	13,384	-	13,384
Mortgage interest income	9,729	-	9,729
Realized and unrealized loss on investments	(2,220,812)	-	(2,220,812)
Investment expenses	(102,002)	-	(102,002)
Change in fair value of restricted net assets	-	(3,534,232)	(3,534,232)
Total other expense	<u>(2,299,701)</u>	<u>(3,534,232)</u>	<u>(5,833,933)</u>
Change in net assets	(2,922,076)	6,748,888	3,826,812
Net assets:			
Beginning of year	<u>44,216,165</u>	<u>53,784,538</u>	<u>98,000,703</u>
End of year	<u>\$ 41,294,089</u>	<u>\$ 60,533,426</u>	<u>\$ 101,827,515</u>

See accompanying notes to financial statements.

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services			Support Services		
	Sheltering and Adoption	Clinic	Total	Fundraising and Development	General and Administrative	Total
Total salaries and related expenses	\$ 3,529,222	\$ 1,705,206	\$ 5,234,428	\$ 282,881	\$ 114,850	\$ 397,731
Advertising and marketing	26,324	-	26,324	191,549	-	191,549
Depreciation	578,290	208,649	786,939	9,711	30,379	40,090
Employee costs	68,957	35,513	104,470	3,825	14,576	18,401
Event expenses	38,024	113	38,137	29,138	33,789	62,927
Facility maintenance and repairs	212,874	38,728	251,602	637	45,301	45,938
Insurance	95,400	34,421	129,821	1,602	19,354	20,956
Office expenses and supplies	49,840	21,057	70,897	35,409	110,329	145,738
Outside contractors	128,127	115,491	243,618	20,598	114,673	135,271
Printing and promotion	7,653	1,600	9,253	72,643	78,370	151,013
Program supplies	849,956	577,456	1,427,412	1,648	13,403	15,051
Telephone and internet	31,054	10,422	41,476	2,934	10,774	13,708
Utilities	260,752	93,774	354,526	4,365	13,923	18,288
Occupancy costs	14,723	5,148	19,871	239	763	1,002
Vehicle maintenance	17,724	15	17,739	-	-	-
Total functional expenses	\$ 5,908,920	\$ 2,847,593	\$ 8,756,513	\$ 657,179	\$ 600,484	\$ 1,257,663

See accompanying notes to financial statements.

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Increase in net assets	\$ 3,826,812
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	831,467
Changes in fair value of bequests, remainder trusts, and pledges	3,534,232
Investment income, net	(540,951)
Realized and unrealized loss on investments	2,220,812
Changes in assets and liabilities:	
Decreases (increases) in:	
Accounts receivable	19,165
Pledges receivable	(6,808,186)
Grant receivable	75,000
Bequest and remainder trust receivables	2,366,415
Inventory	2,711
Prepaid expenses	(37,696)
Increases (decreases) in:	
Accounts payable	307,415
Accrued expenses	(261,740)
Net cash provided by operating activities	<u>5,535,456</u>
Cash flows from investing activities:	
Proceeds from sales of investments	2,596,928
Purchases of investments	(2,399,121)
Principal collections on mortgage receivable	4,120
Purchases of property and equipment	(1,317,423)
Net cash (used in) investing activities	<u>(1,115,496)</u>
Cash flows from financing activities	<u>-</u>
Net increase in cash and cash equivalents	4,419,960
<u>Cash and cash equivalents:</u>	
Beginning of year	<u>5,330,457</u>
End of year	<u>\$ 9,750,417</u>

See accompanying notes to financial statements.

Note 1 – Organization and Description of Business

Peggy Adams Animal Rescue League of the Palm Beaches, Inc. (the "Organization") is a nonprofit organization, whose purpose is to encourage humane treatment of animals and promote animal welfare by providing adoption facilities and medical services to domesticated animals and by community education.

The Organization's support comes primarily from individual donors' contributions, endowments and payments for medical services provided to animals. The Organization also operates a boutique store.

Note 2 – Summary of Significant Accounting Policies

Financial Statement Presentation

The Organization's financial statements are prepared on the accrual basis of accounting. Net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

Net Assets without Donor Restrictions – Available for use in general operations and are not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.

Net Assets with Donor Restrictions – Some restrictions are temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when the stipulated time has elapsed, the stipulated purpose has been fulfilled, or both. Contributions of long-lived assets and of cash restricted for the acquisition of long-lived assets are released when the assets are placed in service. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for their restricted purpose.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bequests and Remainder Trusts

The Organization is a beneficiary under various will and trust agreements. Related amounts are recorded either when a will is declared valid by a probate court, or when the Organization is notified as a beneficiary of a trust and the proceeds are measurable. The beneficial interest in the remainder trusts is recorded at net present value, using risk-free interest rates applicable to the years in which the benefit is expected to be received.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or passage of time. Amounts received that are restricted for future periods (time restriction) or are restricted by the donor for specific purposes (purpose restriction) are reported as donor restricted support that increases the net assets with donor restrictions class.

Note 2 – Summary of Significant Accounting Policies, continued

Contributions, continued

When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), the net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Program Income

Program income is recognized as revenue when services are performed.

Fund Raising

The Organization's financial statements are presented in accordance with Accounting Standard Codification ("ASC") 958, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities that include Fund Raising* (formerly Statement of Position 98-2). The ASC establishes criteria for accounting and reporting for any activity that solicits contributions.

Special Events

The Organization recognizes special event income in the year the event occurs. Special event income is reflected net of direct expenditures.

Cash and Cash Equivalents

Cash consists of cash on hand. The Organization considers all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents. At December 31, 2018, there was \$1,103,033 of cash held in brokerage accounts, which is included under the caption "cash equivalents" on the Organization's statements of financial position and cash flows.

Accounts Receivable

Accounts receivable are stated at uncollected balances, less an allowance for doubtful accounts. Allowance for doubtful accounts is calculated based on the aging of the Organization's accounts receivable, historical experience, third-party contracts and other circumstances, and reflects management's best estimate of the amounts that will not be collected. The allowance is increased by charges to income and decreased by charge-offs (net of recoveries). At December 31, 2018, there was no allowance balance as the Organization estimated that the default risk associated with its accounts receivable was minimal.

Pledges and Grants Receivable

The receipt by the Organization of unconditional promises to give with amounts due in future periods is reported as donor restricted support, unless explicit donor or grantor stipulations or circumstances surrounding the receipt of the promise make clear that the donor or grantor intended it to be used to support activities of the current period. Unconditional promises to give are reported at the discounted present value of estimated future cash flows, using a discount rate that approximates the rate of government securities, and are deemed fully collectible at December 31, 2018. Amortization of the discount is recorded as additional contribution revenue.

Note 2 – Summary of Significant Accounting Policies, continued

Valuation of Investments at Fair Value

The Organization adopted the provisions of the Financial Accounting Standards Board (“FASB”) ASC 820, *Fair Value Measurements*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization.

Unobservable inputs reflect the Organization’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

Inventory

Inventory consists of pet supplies held for sale. Pet supply inventories are recorded at lower of cost (determined on the first-in, first-out method) or market.

Property and Equipment

Buildings, building improvements and equipment are recorded at cost, if purchased or at fair value at time of donation, if contributed. Depreciation is computed on the straight-line method over the following estimated useful lives of the depreciable assets.

	<u>Years</u>
Land improvements	5 - 10
Buildings and building improvements	10 - 30
Furniture and equipment	5 - 10
Vehicles	5

Major replacements and betterments of buildings, building improvements and equipment in excess of \$2,500 are capitalized while repairs and minor replacements are charged to operations.

Note 2 – Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain salaries, wages and related expenses have been allocated based on the function of the staff across the departments and all other supporting expenses consisting of facility and vehicle maintenance, insurance, supplies, utilities, and others have been allocated based on the square footage of space occupied by each program and supporting service.

In-kind Contributions and Contributed Services

In-kind contributions are reflected as contributions at their estimated fair value at time of donation. Gifts of nonmonetary contributions are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Organization recognizes the fair value of contributed services received if such services (a) create or enhance non-financial assets or (b) require specialized skills are performed by people with those skills, and would otherwise have been purchased. In addition, the Organization received services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fund-raising campaigns that do not meet the criteria for financial statement recognition.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes. The Organization has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. Accordingly, there is no provision for income taxes.

The Organization has adopted FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. The Organization will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. The Organization continually evaluates expiring statutes of limitations, changes in tax law and new authoritative rulings.

Advertising

The Organization expenses advertising costs as incurred. During the year ended December 31, 2018, the Organization incurred total advertising and marketing expenses of \$272,316, inclusive of \$54,443, which is classified within special events and mail appeal, net.

Recent Accounting Pronouncement

In November 2016, the FASB issued Accounting Standard Update (“ASU”) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the classification of restricted cash in the statement of cash flows. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2018. Management is evaluating the potential impact of this new guidance on the financial statements.

Accounting Pronouncements Adopted

In 2018, the Organization adopted the ASU No. 2016-14 *Not-For-Profit Entities (Topic 958), Presentation of Financial Statements of Not-For-Profit Entities*. Under the new guidance, not-for-profit (“NFP”) entities are required to: (1) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than the currently required three classes.

Note 2 – Summary of Significant Accounting Policies, continued

Accounting Pronouncements Adopted, continued

That is, an NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets; (2) present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes; (3) continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method; (4) provide enhanced disclosure on (a) governing board designations, appropriation, and similar actions that result in self-imposed limits on use of resources without donor-imposed restriction as of the end of the period; (b) composition of net assets with donor restrictions at the end of the period; (c) qualitative information that communicates how the Organization manages its liquid resources to meet cash needs for general expenditures within one year of the balance sheet date; (d) qualitative information that communicates availability of an Organization's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date; (e) amount of expenses by both their natural and functional classification; (f) methods used to allocate costs amount programs and support functions; (g) additional disclosures on underwater endowment funds.

Date of Management's Review

Management has evaluated subsequent events through June 11, 2019, the date on which the financial statements were available to be issued.

Note 3 – Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, maintained at several interest bearing and non-interest bearing bank accounts which, at time, may exceed federally insured limits guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2018, the Organization had \$8,630,460 in excess of FDIC insured limits.

The Organization's investment accounts balances held at brokerage firms are insured by the Securities Investor Protection Corporation ("SIPC") up to \$500,000. At December 31, 2018, amounts in excess of SIPC insured limits, including cash equivalents, were \$24,868,094. The Organization has not experienced losses of this nature in any of its depository accounts.

Note 4 – Liquidity and Availability

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of December 31, 2018 are composed of the following:

Financial assets at December 31, 2018:	
Cash and cash equivalents	\$ 9,750,417
Accounts receivable	33,441
Pledges receivable	7,249,827
Grant receivable	100,000
Mortgage receivable	119,356
Investments	24,264,750
Endowment receivable	3,743,880
Bequest and remainder trust receivables	43,229,466
Total financial assets	<u>88,491,137</u>
Less financial assets not available for general expenditure within one year due to:	
Restricted by donors with purpose restrictions	\$ (12,585,529)
Restricted by donors in perpetuity	(3,743,880)
Bequest and remainder trust receivables due in more than one year	(40,863,050)
Pledges receivable due in more than one year	(441,764)
Mortgage receivable due in more than one year	(114,894)
Total financial assets unavailable for general expenditure	<u>(57,749,117)</u>
Less financial assets unavailable without Board's approval:	
Board designation of funds for capital campaign	\$ (676,745)
Total financial assets unavailable for Board designation	<u>(676,745)</u>
Total financial assets available for general expenditure within one year	<u>\$ 30,065,275</u>

As part of the Organization's liquidity management, it invests cash in excess of daily requirements in short-term investments.

Note 5 – Mortgage Receivable

The mortgage receivable is carried at its unpaid principal balance and is due in monthly installments of \$1,154 including interest at 8% until July 2033, at which time all unpaid principal is due in full. The mortgage is collateralized by real property. Interest on the mortgage receivable is recognized over the term of the loan using the effective interest rate method. For the year ended December 31, 2018, the Organization recognized \$9,729 in interest income.

Note 5 – Mortgage Receivable, continued

The following is a schedule of future minimum mortgage principal collections at December 31, 2018:

<u>Years Ending December 31,</u>		
2019	\$	4,462
2020		4,832
2021		5,233
2022		5,668
2023		6,138
Thereafter		93,023
	<u>\$</u>	<u>119,356</u>

Note 6 – Contributions Receivable

Pledges Receivable

During the year ended December 31, 2018, the Organization received pledge agreements from various individuals in the total amount of \$9,367,961, of which \$239,500 is unrestricted and \$9,128,461 had donor imposed restrictions to fund the Organization's capital campaign. The pledge amounts are to be collected in equal installments over the next five years. Based on the active pledge agreements from 2018 and earlier years, the cumulative total present value of future pledge payments to be received at December 31, 2018 is \$7,249,827. The present value is adjusted each year to reflect changes in current interest rates and other actuarial assumptions. The pledges receivable amount is expected to be received over the next five years and, accordingly, this amount was classified as restricted pledges receivable in the statement of financial position at December 31, 2018.

Grant Receivable

During the year ended December 31, 2018, the Organization received grant agreements from various grantors in the total amount of \$291,000. Based on the active grant agreements from 2018 and earlier years, the cumulative total of future grant payments to be received at December 31, 2018 is \$100,000. The grant receivable amount is expected to be received over the next three years and, accordingly, this amount was classified as grant receivable in the statement of financial position at December 31, 2018.

Endowment Receivable

The Organization received an unconditional pledge of \$4,000,000 during 2007 for the purpose of establishing an endowment in which the principal is to be maintained in perpetuity and the earnings are to be used for operations. The pledged endowment is due upon the demise of the donor and a receivable has been recorded at its net present value amount of \$3,743,880 in the statement of financial position at December 31, 2018.

Note 6 – Contributions Receivable, continued

Bequest and Remainder Trust Receivable

The Organization is a remainder beneficiary of an irrevocable charitable remainder unitrust that was created in October 1984. Three (3) income beneficiaries are to receive, first from income and, to the extent that income is insufficient, from principal, an annual annuity equal to a percentage of the net fair market value of the trust assets on the first day of the trust year. Upon the demise of all three beneficiaries, 25% of the remaining principal is to be distributed to the Organization. In addition, the Organization is the remainder beneficiary of two additional trusts from which 50% and 100%, of the principal, respectively, is to be distributed to the Organization upon demise of the income beneficiaries.

The Organization also is one of five beneficiaries of a revocable trust from which a 10% distribution of its fair market value is made each year and divided among the five different charitable organizations. Therefore, 20% of the trust value is to be distributed to the Organization.

The Organization also is a 30% beneficiary of a charitable foundation (Unitrust), which will make annual distributions to the beneficiaries based on 4.5% of the fair market value of the Unitrust.

The total present value of future minimum receipts is \$43,229,466 at December 31, 2018. The present value is adjusted each year to reflect changes in the life expectancy, current interest rates and other actuarial assumptions.

Note 7 – Investments

Investments are stated at fair value and have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820 (see Summary of Significant Accounting Policies Note). All investments held at December 31, 2018 are summarized as follows:

	Fair Value Measurement at December 31, 2018			
	Total	Quoted Prices for Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 14,624,132	\$ 14,624,132	\$ -	\$ -
Fixed income funds	6,143,942	6,143,942	-	-
Mutual funds specific strategy	2,990,807	2,990,807	-	-
Other	505,869	505,869	-	-
	<u>\$ 24,264,750</u>	<u>\$ 24,264,750</u>	<u>\$ -</u>	<u>\$ -</u>

Peggy Adams Animal Rescue League of the Palm Beaches, Inc.
Notes to Financial Statements

Note 8 – Property and Equipment

Property and equipment at December 31, 2018 consist of the following:

Land and land improvements	\$	1,681,771
Buildings and building improvements		17,651,189
Construction in process		2,629,970
Furniture and equipment		1,966,205
Computers and related equipment		290,321
Vehicles		330,045
		<u>24,549,501</u>
Less: accumulated depreciation		(10,685,871)
Property and equipment, net	\$	<u><u>13,863,630</u></u>

Depreciation expense was \$831,467 in 2018, of which \$4,438 is included within the boutique store operating results.

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 are restricted for the following purposes:

Subject to expenditure for specified purpose:		
Capital campaign - cash and cash equivalents	\$	5,970,672
Capital campaign - pledges receivable		6,532,668
Unsatisfied grant purpose restrictions		120,225
Grant receivable		100,000
Endowment receivable		3,743,880
Total subject to expenditure for specified purpose		<u>16,467,445</u>
Subject to the passage of time:		
Pledges receivable not restricted by donors, unavailable for expenditure until due	\$	717,159
Bequest and charitable remainder trust receivables		43,229,466
Mortgage receivable		119,356
Total subject to the passage of time		<u>44,065,981</u>
Total net assets with donor restrictions	\$	<u><u>60,533,426</u></u>

Note 9 – Net Assets with Donor Restrictions, continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, occurrence of the passage of time or other events specified by the donors as follows:

Expiration of time and purpose restrictions:	
Expiration of time restrictions	\$ 2,915,339
Satisfaction of purpose restrictions	91,275
Total net assets released from restrictions	<u>\$ 3,006,614</u>

Note 10 – Net Assets without Donor Restrictions

Net assets without donor restrictions are composed of the following at December 31, 2018:

Board-designated funds	\$ 676,745
Property and equipment, net	13,863,630
Undesignated	26,753,714
Total net assets without donor restrictions	<u>\$ 41,294,089</u>

Note 11 – Commitments and Contingencies

The Organization is subject to asserted claims and liabilities that arise in the ordinary course of business. The Organization maintains insurance policies to mitigate potential losses from these actions. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the Organization's financial position or results of operations.

Note 12 – Subsequent Event

During May 2019, the Organization entered into an agreement for the construction of the Organization's new 26,000 square foot Animal Adoption Center. The construction project is to be funded through the \$15 million Capital Campaign. Construction is scheduled to commence during June 2019.